

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003****NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY****Bases of Budgeting**

With the exception of the reconciling items described in the Reconciliation of Budgetary Basis and Generally Accepted Accounting Principles (GAAP) Basis Statements and Schedules section of this note, King County uses the modified accrual basis of budgeting for the General Fund, and most Debt Service and Special Revenue Funds. Revenues are estimated on the basis of when they become susceptible to accrual, for example, intergovernmental revenues, where revenue estimates are matched with appropriations. Budgeted appropriations include both Expenditures and Other financing uses; they are budgeted based on liabilities expected to be incurred in the acquisition of goods and services. These are annual budgets applicable to the current fiscal year.

Twenty-four Special Revenue Funds have annual budgets with budgeting concepts identical to the General Fund. Twenty-three of these funds are presented in the budget and actual schedules of this report. One of these funds, the Arts and Cultural Education Fund, was inactive in 2003.

Two Special Revenue Funds (the Community Development Block Grant Fund and the Miscellaneous Grants Fund) do not have an annual basis of budgeting. Budgets within these funds are on a multi-year basis with the budget for a particular program covering one or more fiscal years. Total revenues and expenditures for the program are budgeted at its inception and any unexpended balance at the end of the fiscal year is reappropriated to the next fiscal year.

The Flood Control Zone Districts Funds are not budgeted. These funds account for four flood control zone districts' activities in accordance with chapter 86.15 RCW.

The Road Improvement Districts Maintenance Fund is not budgeted. This fund reports the road district maintenance assessment activity in accordance with chapter 36.88 RCW.

The Treasurer's Operations and Maintenance Fund, pursuant to RCW 84.56.020, is not budgeted.

Four Debt Service Funds have annual budgets. Three have annual budgets with budgeting concepts identical to the General Fund. One of these, the Limited General Obligation Bond Redemption Fund, includes budgeting and accounting for expenditures related to proprietary fund debt service payments. The fourth budgeted Debt Service Fund, the Road Improvement Guaranty Fund, is budgeted only in the exceptional case of transfers of surplus to the General Fund.

The Road Improvement Districts Special Assessment Debt Redemption Fund is not budgeted. This fund reports road improvement districts' special assessments revenues and debt service expenditures in accordance with chapter 36.88 RCW.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund, are controlled by multi-year budgets. However, capital budget appropriations are canceled at the end of the year unless the County Executive submits to the County Council the report of the final year-end reconciliation of expenditures for all capital projects on or

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before March 1 of the year following the year of the appropriation and each year thereafter in which the appropriation remains open.

The Road Improvement Districts Construction Fund is not budgeted. This fund reports capital improvement assessments construction activity in accordance with chapter 36.88 RCW.

The Enterprise and Internal Service Funds (with the exception of the Insurance Fund) are budgeted on the modified accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred in the acquisition of goods and services during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claim settlements that occurs and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations, is deferred to the following year when the claim is paid. In 2003 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis schedules due to insufficient appropriations in the current year.

The Trust and Agency Funds are not budgeted.

Encumbrances

Encumbrances outstanding as of December 31, 2003, are shown in the following schedule by fund type:

Year-end Encumbrances Outstanding as of December 31, 2003

General Fund	\$ 4,930,337
Public Health Fund	1,250,866
Special Revenue Funds	21,503,223
Capital Projects Funds	71,566,727
Enterprise Funds	5,148,207
Internal Service Funds	<u>1,838,948</u>
Total All Funds	<u>\$ 106,238,308</u>

Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules for Governmental Funds

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the GAAP basis in 2003. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with actual data on the budgetary basis rather than the GAAP basis. Budget to actual statements and schedules of the governmental funds include an explanation of the differences between

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the two bases. All statements that do not have budget comparisons are prepared on the GAAP basis.

Budgeted Level of Expenditures

Appropriations are authorized by ordinance, generally at the fund level, with the exceptions of the General Fund and five Special Revenue Funds (the Community Development Block Grant, County Road, Criminal Justice, Developmental Disabilities, and Miscellaneous Grants Funds), which are appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at the end of the year. The schedules of revenues, expenditures, and changes in fund balances/retained earnings-budget (non-GAAP budgetary basis) and actual include variances at the function of expenditure level. These variances are presented for informational purposes only and, if negative, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

Expenditures including Other Financing Uses, in Excess of Amounts Legally Authorized

Funds with Multi-year Budgets

Sixty-three capital projects in eleven Capital Projects and Enterprise Funds with multi-year budgets have a combined total of \$33.3 million of expenditures in excess of budget. An expenditure of \$29.0 million to pay off a one-month term bond anticipation note requires additional appropriation through a corrections ordinance. The other sixty-two projects which have incurred \$4.3 million in excess of budget will also be corrected by additional appropriations in 2004.

Funds with Annual Budgets

All funds and departments/divisions with annual budgets completed the year within their legally authorized expenditures, including other financing uses.

Fund Balance and Net Asset Deficits

Building Construction and Improvement Fund – The deficit of \$54,365,741 is the result of using a series of short-term bond anticipation notes to finance long-term capital projects. General Obligation bonds were issued in 2003 to pay off a portion of the debt and future bond issues are planned to replace the outstanding short-term notes. The proceeds of the bond issues will be recorded as other financing sources in the capital projects fund, eliminating the fund balance deficit.

Construction and Facilities Management Fund – The deficit of \$1,584,131 is primarily the result of 2003 budget actions intended to reduce the fund's working capital. The fund was budgeted to incur expenses in excess of revenues by \$2.8 million. As a result, full accrual basis expenses also exceeded revenues in 2003. The fund is anticipated to increase its working capital in 2004 and in 2005, reducing the deficit.

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County Road Fund – The deficit of \$317,032 is the result of a decline in unrealized investment gains of \$243,571 and property sales generating less revenue than programmed. It is anticipated that property sales in 2004 will eliminate the deficit.

Long-term Leases Fund – The deficit of \$186,794 is the result of non-reimbursed expenditures for various tenant improvements and earthquake repairs. The county plans to recover the costs of tenant improvements over several years through increased monthly billings to benefiting agencies.

Safety and Workers' Compensation Fund – The deficit of \$8,931,070 is the result of losses in several of the last ten years. The rates charged by the fund for workers' compensation are sufficient to meet current cash flow requirements but only fund a portion of its long-term liabilities. The deficit is being addressed in subsequent years through rate setting.

Transfer of Development Credit Program Fund – The deficit of \$1,490,721 is the result of spending financed by short-term borrowing in anticipation of planned contributions from the Conservation Futures Levy Fund.